(c) what are its effects on the financial institutes?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHEPATIL): (a) The Bank Rate is the principal signaling instrument of Reserve Bank of India (RBI) for providing directional guidance to the extent feasible, to general level of interest rates. The actual decisions on deposit rates and lending rates are taken by the individual financial institutions depending on their respective strategies and conditions in financial market, duly recognizing the stance of monetary policy indicated by several measures, one of which being the changes in the Bank Rate.

(b) and (c) On the eve of cut in the Bank rate (*i.e.* October 22, 2001) the yields on 5 to 10 years Government securities have moved down from 7.43 per cent and 8.98 per cent to 7.11 per cent and 8.3 per cent respectively by November 26, 2001. With regard to financial institutions, there has been a general downward movement in interest rates over the period. The Long Term Prime Lending Rate (LTPLR) of Industrial Development Bank of India (IDBI) declined from 14.0 per cent in January 2001 to 13.5 per cent in July 2001 and that of ICICI from 13.0 per cent to 12.5 per cent. The medium term PLR and short term PLR of these institutions have also recorded concomitant declines. Minimum Term Lending Rate of IDBI as on November 9,2001 was 12.5 per cent per annum.

Regulation of NBFCs

1581. SHRI P. PRABHAKAR REDDY: Will the Minister of FINANCE be pleased to state:

(a) whether the Non-Banking Financial Companies (including residuary Non-Banking Companies) are subject to any regulatory framework other than the general and distant supervision of the Reserve Bank of India;

(b) if so, the details thereof and if not, the reasons therefor;

(c) whether these companies are subjected to periodical inspection/ audit; and

(d) if so, the latest audit conducted in respect of Peerless General Finance and Investment Company Ltd. and the results thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHEPATIL): (a) and (b) The Reserve Bank of India has put in place a comprehensive regulatory and supervisory framework for Non-

Banking Financial Companies including Residuary Non-Banking Companies aimed at protecting the interests of depositors and ensuring that these companies function on sound and healthy lines. The regulatory framework includes, *interalia*, compulsory registration, maintenance of liquid assets at a specified percentage of deposits, transfer of at least 20% of net profit to reserve fund and empowering RBI to issue directions to NBFCs. Acceptance of public deposits by NBFCs is governed by provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998. The deposit acceptance activities of RNBCs are governed by the provisions of Residuary Non-Banking Companies (Reserve Bank) Directions, 1987. RBI cancels the Certificate of Registration, issues orders prohibiting acceptance of deposits and alienation of assets, initiates criminal proceedings against the company, wherever warranted and in worst cases even initiates winding up proceedings.

(c) The registered NBFCs are subjected to regular on-site inspection under Section 45 N of the Reserve Bank of India Act, 1934 with fixed periodicity.

(d) The Peerless General Finance and Investment Company Ltd. was last inspected by the RBI with reference to company's financial position as on 31.3.2000 between January, 9 to April 27, 2001 and the findings alongwith a copy of the inspection report were forwarded to the company on 17.7.2001. The inspection has revealed some improvements in certain areas of the company. The company was able to increase its operating profit from Rs. 69.46 crore in 1998-99 to Rs. 135.45 crore in 1999-2000. The deposit erosion as a percentage to the total estimated deposit liability to the certificate holders declined from 11% as on 31.3.1999 to 8% as on 31.3.2000. The company was able to maintain the minimum requirement of 80% investments in liquid assets as on 31.3.2000. The company's Net Owned Fund continued to be negative and stood at Rs, (-) 649.19 crore as on 31.3.2000. It had inadequate capital in terms of the regulatory standard, i.e.; CRAR of 12%. The Company was yet to disclose its true deposit liability. of the total amount of Rs. 396.68 crore collected during 1999-2000, an amount of Rs. 113.79 crore was fresh deposits mobilized. However, the bulk of such deposits comprised mainly of "Roll-overs' (Rs. 54.76 crore). No interest was applied on Subscription Deposit of Rs. 65.00 crore as on 31.3.2000. A shortfall of Rs. 18.37 crore was noticed in the area of provisioning against Non-Performing Assets (NPAs) along with over recognition of an income of Rs. 1.40 crore. The company did not asess the present realizable value of property mortagaged as security. The company may undertake austerity measures by curtailment of various expenses so as to

achieve positive net worth. Management Information System was not commensurate with the value of business of the company. The Turn-Around Plan of the company in respect of several performance parameters should be reviewed in the light of present working results.

Impact of slump in world economy on exports and stock markets of India

1582. SHRI BRATIN SENGUPTA: Will the Minister oif FINANCE be pleased to state:

(a) whether he has stated that banks and financial institutions would not crumble and the slump in the World economy had affected our financial institutions;

(b) whether the happenings in Japan and Europe had a direct impact on us and our exports have decreased and stock markets gone down; and

(c) if so, the details of the steps being taken in this regard?

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): (a) The Finance Minister has stated repeatedly that it is very important for banks and financial institutions to continuously monitor the changing environment, both internal and external, and take action as appropriate, to ensure financial health. Both banks and financial institutions made positive net profit in 2000-01, and their financial health is expected to improve with econimic recovery. As developments in the real sector affect the financial sector, slump in the world economy has a bearing on the quality of assets of banks and financial institutions.

(b) As Japan, Western Europe and USA together account for almost half of the Indian exports, slowdown in these countries has had an impact on our exports. Exports in the first seven months of the current financial year have contracted by 2.88 per cent as compared to the corresponding period of the previous financial year. As regards the stock market, the recent uptrend in share prices witnessed abroad has also been witnessed in the Indian stock market.

(c) Several measures have recently been announced to boost exports which include reduction in interest rate on export credit, Increased duty drawback rate on about 300 export products, abolition of value caps on 400 export items, and announcement of special financial package for export of six products (pharmaceuticals, agro-chemicals, transport equipment, cement,